

## HOUSING MARKET OUTLOOK

Saint John, Moncton CMAs and Fredericton CA



Canada Mortgage and Housing Corporation

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## New Brunswick Economy Maintains Stability

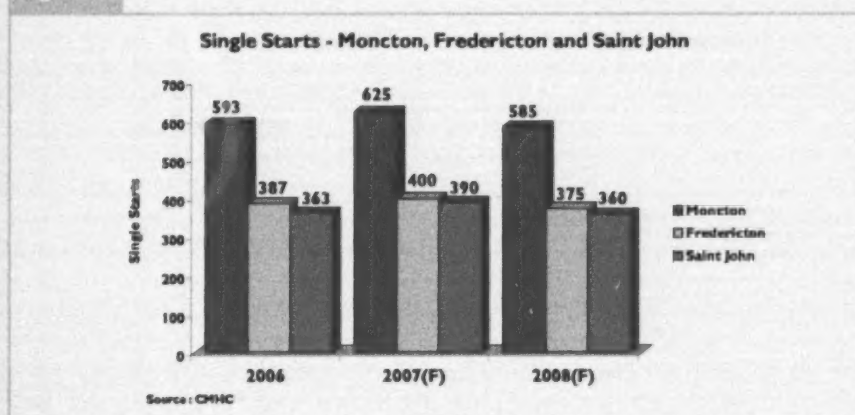
After the first three quarters of 2007, the New Brunswick economy, as well as the provincial housing market, has remained resilient despite the looming economic challenges. New Brunswick, like the rest of Canada, is likely to experience some repercussions from the much publicized issues currently plaguing the United States housing market if anticipated tightening of lending procedures lead to reduced consumer spending south of the

border. The corresponding drag on the economy could limit economic expansion, which, in combination with a strong Canadian dollar, will present mounting challenges to New Brunswick companies who rely on exports to the United States, its largest trading partner. In light of these challenges, capital spending will continue to be a critical component of the province's economic performance, with the highlight being the proposed new refinery in Saint John.

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Figure 1



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The multi-billion dollar project, once underway, will undoubtedly provide fuel to the province's economy in the coming years.

In historical terms, the housing market is expected to remain strong in 2007. In both Moncton and Fredericton, net-migration continues to remain positive as each centre benefits from solid service and construction sectors. Furthermore, the population of Saint John, which has remained virtually unchanged in recent years, stands to increase if the proposed refinery project moves forward. Nevertheless, migration to Western Canada continues to be a challenge as the growing loss of skilled trades people is having a direct impact on the province's housing market, with impending shortages in certain areas. The resulting potential for lengthy delays, and continually rising costs are leading a growing number of consumers to select an existing home instead of new construction.

Expect GDP growth in New Brunswick to be 2.4 per cent in 2007, followed by a moderate increase in 2008. Although the residential housing market will remain strong in

historical terms, housing starts are expected to decline slightly over the forecast period for the province as a whole. Total starts should decline to 4,025 units in 2007, with a further drop to 3,725 units in 2008.

### Residential Construction to Remain Strong in Historical Terms

After the first three quarters of 2007, total housing starts in Saint John posted a double digit increase compared to the same period last year. Multiple starts have exceeded last year's pace by over 20 per cent while single starts increased 4.4 per cent. In light of current large scale capital projects in the area, housing demand over the forecast period is expected to remain strong in historical terms. For 2007, expect both single and multiple starts to exceed last year's total with 390 and 260 units, respectively. The proposed refinery project has the potential to further stimulate housing demand once it receives final approval and construction activity ramps up. However, given the proposed timeline for construction,

impact on housing demand in 2008 will likely be minimal. Expect a moderate decline in single starts to 360 units in 2008 while multiple starts remain relatively stable with 260 units.

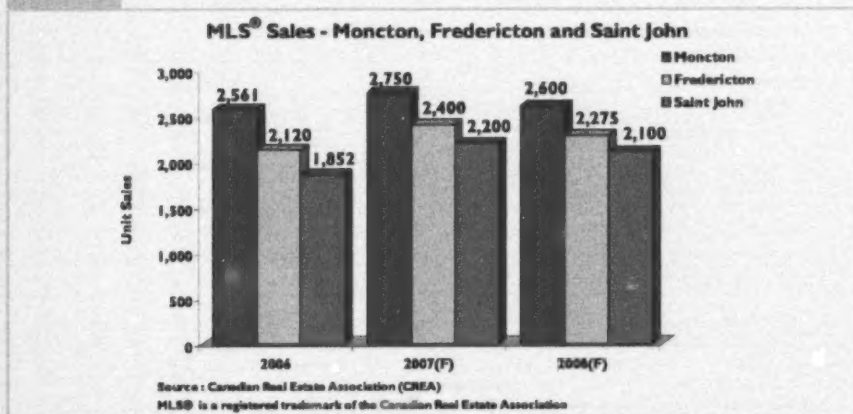
In Greater Moncton, residential construction was off to a brisk pace early in the year as single starts rebounded following the third consecutive annual decline in 2006. At the end of third quarter, single starts were up to 496 units, a 12 per cent increase compared to last year. Expect single starts to rise to 625 units this year compared to 593 units in 2006. The upward trend should be short lived as single starts are expected to decline moderately in 2008, down to 585 units.

Offsetting the rise in single starts was a 6.6 per cent decline in multiple starts through the first three quarters of 2007. Last year, Greater Moncton led the province with 396 semi-detached starts, just over 80 per cent of the provincial total for semi-detached units.

In 2007, the pace has not let up with 280 units as of the end of September as semi-detached units have become the entry level home of choice in Greater Moncton. Expect semi-detached starts to surpass last year's record setting total in 2007, helping off-set an anticipated decline in apartment starts. Consequently, multiple starts are expected to remain at historically high levels with 760 units in 2007, followed by a subsequent drop to 700 units in 2008.

Both single and multiple starts declined modestly in Fredericton last year. In 2007, single starts have reversed that trend with a 6.5 per cent year-over-year increase

Figure 2



as of the end of the third quarter. As a result, expect single starts to surpass last year's total with 400 units in 2007, followed by a modest drop to 375 units in 2008. Multiple starts started slowly in the first quarter of 2007 with only two starts compared to 36 last year, contributing to a 27.8 per cent year-over-year decline after the first three quarters of 2007. As result, expect multiple starts to decline to 200 units in 2007, followed by a moderate increase to 240 units in 2008.

### **Resale Market Maintains Stability**

The resale market in Saint John has outperformed last year through the first three quarters of the year as unit sales and average price increased 28.5 and 9.8 per cent, respectively. Furthermore, as of the end of September, the average number of days on market declined from 100 last year to 91 in 2007. Expect the resale market to remain strong in historical terms with 2,200 and 2,100 sales in 2007 and 2008, respectively. Furthermore, the average sale price is expected to rise to \$142,500 in 2007, with a subsequent increase to \$149,000 in 2008.

Last year, new records were set in the Greater Moncton area for unit sales, average sale price and new listings. As of the end of September, the average number of days required to sell a home had increased to 95 days, up from 88 last year, as ample listings continued to provide an extended selection to potential home buyers. Nevertheless, both unit sales and average price experienced year-over-year increases of 9.1 and 11.1 per cent, respectively. Expect sales to rise to 2,750 units in

2007, up from last year's total of 2,561 units, with a subsequent drop to 2,600 units in 2008. The average sale price is expected to maintain an upward trend, rising to \$141,000 in 2007, followed by a further increase to \$147,500 in 2008.

In the Fredericton area, an ample supply of new listings - combined with the widening gap between the price of new and existing homes - resulted in brisk sales and steady price growth last year. In the early part of 2007, existing home sales exceeded last year's pace while price growth was negligible. As of the end of the third quarter, existing home sales have maintained an upward trend, posting a 16.7 per cent year-over-year increase while price growth, although positive, was the lowest among the province's three major urban centres at 3.7 per cent. In addition, the average number of days on market has increased significantly, up to 79 days compared to 67 last year. For 2007 and 2008, expect unit sales to reach 2,400 and 2,275 units respectively, with the average sale price climbing to \$144,000 in 2007, and \$149,500 in 2008.

### **Vacancy Rates Rise in New Brunswick**

Following strong construction activity in 2005 and 2006, the rental market in the province's three major urban areas experienced rising vacancy rates in the fall of 2006. In Fredericton and Moncton, the vacancy rate increased by 0.8 and 0.9 percentage points, respectively. Meanwhile, in Saint John, the increase in the local vacancy rate of 1.1 percentage points led to the highest vacancy rate among the

province's three major urban areas - 6.8 per cent.

With current and potential large-scale capital projects in the area, the vacancy rate in Saint John is expected to decline to 5.5 per cent in 2007 and remain stable in 2008. In Fredericton, the vacancy rate should be relatively stable at 4.8 per cent in 2007 with an expected minor decline to 4.7 per cent in 2008. In historical terms, a relatively large number of apartment starts were recorded in Greater Moncton last year. As a result, an increase in the vacancy rate is anticipated in 2007, up to 5.9 per cent from last year's 5.6 per cent. This will be followed by a subsequent decline to 5.5 per cent in 2008. In all three of the province's three major urban areas, expect the average rent increase for a two-bedroom unit to be between two and three per cent in both 2007 and 2008.

| Forecast Summary<br>Saint John CMA<br>Fall 2007                  |         |         |         |         |       |         |       |
|------------------------------------------------------------------|---------|---------|---------|---------|-------|---------|-------|
|                                                                  | 2004    | 2005    | 2006    | 2007f   | % chg | 2008f   | % chg |
| <b>Resale Market</b>                                             |         |         |         |         |       |         |       |
| MLS® Sales                                                       | 1,612   | 1,901   | 1,852   | 2,200   | 18.8  | 2,100   | -4.5  |
| MLS® New Listings                                                | 2,810   | 3,225   | 3,357   | 3,350   | -0.2  | 3,240   | -3.3  |
| MLS® Average Price (\$)                                          | 116,836 | 119,718 | 128,202 | 142,500 | 11.2  | 149,000 | 4.6   |
| <b>New Home Market</b>                                           |         |         |         |         |       |         |       |
| <b>Starts:</b>                                                   |         |         |         |         |       |         |       |
| Single-Detached                                                  | 387     | 403     | 363     | 390     | 7.4   | 360     | -7.7  |
| Multiples                                                        | 129     | 98      | 202     | 260     | 28.7  | 260     | 0.0   |
| Starts - Total                                                   | 516     | 501     | 565     | 650     | 15.0  | 620     | -4.6  |
| <b>Average Price (\$):</b>                                       |         |         |         |         |       |         |       |
| Single-Detached                                                  | 180,819 | 198,526 | 215,666 | 226,500 | 5.0   | 234,500 | 3.5   |
| <b>Median Price (\$):</b>                                        |         |         |         |         |       |         |       |
| Single-Detached                                                  | 169,950 | 180,000 | 190,404 | 196,100 | 3.0   | 201,000 | 2.5   |
| New Housing Price Index (% chg) (Saint John-Moncton-Fredericton) | 2.0     | 4.0     | 3.3     | 1.0     | -     | 2.0     | -     |
| <b>Rental Market</b>                                             |         |         |         |         |       |         |       |
| October Vacancy Rate (%)                                         | 5.8     | 5.7     | 6.8     | 5.5     | -1.3  | 5.5     | 0.0   |
| Two-bedroom Average Rent (October) (\$)                          | 520     | 526     | 556     | 570     | 3     | 585     | 3     |
| <b>Economic Overview</b>                                         |         |         |         |         |       |         |       |
| Mortgage Rate (1 year) (%)                                       | 4.80    | 5.80    | 6.30    | 6.86    | 0.56  | 7.19    | 0.33  |
| Mortgage Rate (5 year) (%)                                       | 6.05    | 6.30    | 6.45    | 7.02    | 0.57  | 7.41    | 0.39  |
| Annual Employment Level                                          | 61,400  | 61,900  | 61,900  | 62,300  | 0.6   | 63,100  | 1.3   |
| Employment Growth (%)                                            | 3.5     | 0.8     | 0.0     | 0.6     | -0.6  | 1.3     | 0.7   |
| Unemployment rate (%)                                            | 7.9     | 7.1     | 6.1     | 6.0     | -     | 5.8     | -     |
| Net Migration                                                    | 117     | -292    | -540    | -550    | 1.9   | -450 ** |       |

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

| Forecast Summary<br>Moncton CMA<br>Fall 2007                     |         |         |         |         |       |         |       |
|------------------------------------------------------------------|---------|---------|---------|---------|-------|---------|-------|
|                                                                  | 2004    | 2005    | 2006    | 2007f   | % chg | 2008f   | % chg |
| <b>Resale Market</b>                                             |         |         |         |         |       |         |       |
| MLS® Sales                                                       | 2,028   | 2,341   | 2,561   | 2,750   | 7.4   | 2,600   | -5.5  |
| MLS® New Listings                                                | 3,615   | 3,756   | 4,416   | 4,350   | -1.5  | 4,200   | -3.4  |
| MLS® Average Price (\$)                                          | 113,096 | 124,088 | 128,547 | 141,000 | 9.7   | 147,500 | 4.6   |
| <b>New Home Market</b>                                           |         |         |         |         |       |         |       |
| <b>Starts:</b>                                                   |         |         |         |         |       |         |       |
| Single-Detached                                                  | 760     | 612     | 593     | 625     | 5.4   | 585     | -6.4  |
| Multiples                                                        | 391     | 579     | 823     | 760     | -7.7  | 700     | -7.9  |
| Starts - Total                                                   | 1,151   | 1,191   | 1,416   | 1,385   | -2.2  | 1,285   | -7.2  |
| <b>Average Price (\$):</b>                                       |         |         |         |         |       |         |       |
| Single-Detached                                                  | 162,589 | 168,883 | 191,220 | 205,000 | 7.2   | 215,000 | 4.9   |
| <b>Median Price (\$):</b>                                        |         |         |         |         |       |         |       |
| Single-Detached                                                  | 150,000 | 159,900 | 179,900 | 185,300 | 3.0   | 189,900 | 2.5   |
| New Housing Price Index (% chg) (Saint John-Moncton-Fredericton) | 2.0     | 4.0     | 3.3     | 1.5     | -     | 2.0     | -     |
| <b>Rental Market</b>                                             |         |         |         |         |       |         |       |
| October Vacancy Rate (%)                                         | 5.0     | 4.7     | 5.6     | 5.9     | 0.3   | 5.5     | -0.4  |
| Two-bedroom Average Rent (October) (\$)                          | 611     | 612     | 636     | 650     | 2     | 665     | 2     |
| <b>Economic Overview</b>                                         |         |         |         |         |       |         |       |
| Mortgage Rate (1 year) (%)                                       | 4.80    | 5.80    | 6.30    | 6.86    | 0.56  | 7.19    | 0.33  |
| Mortgage Rate (5 year) (%)                                       | 6.05    | 6.30    | 6.45    | 7.02    | 0.57  | 7.41    | 0.39  |
| Annual Employment Level                                          | 68,025  | 69,025  | 69,050  | 69,500  | 0.7   | 70,250  | 1.1   |
| Employment Growth (%)                                            | 1.9     | 1.5     | 0.0     | 0.7     | -0.7  | 1.1     | 0.4   |
| Unemployment rate (%)                                            | 6.1     | 6.3     | 6.3     | 6.2     | -     | 6.0     | -     |
| Net Migration (N.B.)                                             | -378    | 49      | -1,836  | -1,250  | -31.9 | -750    | -40.0 |

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| Forecast Summary<br>Fredericton CA<br>Fall 2007                  |         |         |         |         |       |         |       |
|------------------------------------------------------------------|---------|---------|---------|---------|-------|---------|-------|
|                                                                  | 2004    | 2005    | 2006    | 2007f   | % chg | 2008f   | % chg |
| <b>Resale Market</b>                                             |         |         |         |         |       |         |       |
| MLS® Sales                                                       | 1,923   | 2,082   | 2,120   | 2,400   | 13.2  | 2,275   | -5.2  |
| MLS® New Listings                                                | 3,438   | 4,038   | 4,577   | 4,350   | -5.0  | 4,225   | -2.9  |
| MLS® Average Price (\$)                                          | 119,191 | 130,502 | 138,094 | 144,000 | 4.3   | 149,500 | 3.8   |
| <b>New Home Market</b>                                           |         |         |         |         |       |         |       |
| <b>Starts:</b>                                                   |         |         |         |         |       |         |       |
| Single-Detached                                                  | 494     | 402     | 387     | 400     | 3.4   | 375     | -6.3  |
| Multiples                                                        | 309     | 390     | 323     | 200     | -38.1 | 240     | 20.0  |
| Starts - Total                                                   | 803     | 792     | 710     | 600     | -15.5 | 615     | 2.5   |
| <b>Average Price (\$):</b>                                       |         |         |         |         |       |         |       |
| Single-Detached                                                  | 177,100 | 205,000 | 211,914 | 218,500 | 3.1   | 225,000 | 3.0   |
| <b>Median Price (\$):</b>                                        |         |         |         |         |       |         |       |
| Single-Detached                                                  | 172,000 | 195,000 | 205,000 | 211,150 | 3.0   | 216,400 | 2.5   |
| New Housing Price Index (% chg) (Saint John-Moncton-Fredericton) | 2.0     | 4.0     | 3.3     | 1.5     | -     | 2.0     | -     |
| <b>Rental Market</b>                                             |         |         |         |         |       |         |       |
| October Vacancy Rate (%)                                         | 3.7     | 4.0     | 4.8     | 4.8     | 0.0   | 4.5     | -0.3  |
| Two-bedroom Average Rent (October) (\$)                          | 657     | 675     | 693     | 710     | 2     | 725     | 2     |
| <b>Economic Overview</b>                                         |         |         |         |         |       |         |       |
| Mortgage Rate (1 year) (%)                                       | 4.80    | 5.80    | 6.30    | 6.86    | 0.56  | 7.19    | 0.33  |
| Mortgage Rate (5 year) (%)                                       | 6.05    | 6.30    | 6.45    | 7.02    | 0.57  | 7.41    | 0.39  |
| Annual Employment Level                                          | 46,375  | 46,425  | 46,675  | 46,900  | 0.5   | 47,250  | 0.7   |
| Employment Growth (%)                                            | -0.4    | 0.1     | 0.5     | 0.5     | 0.0   | 0.7     | 0.2   |
| Unemployment rate (%)                                            | 6.7     | 6.9     | 6.2     | 6.1     | -     | 6.0     | -     |
| Net Migration (N.B.)                                             | -378    | 49      | -1,836  | -1,250  | -31.9 | -750    | -40.0 |

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